

# MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

## DIVISION OF CREDIT UNIONS

### NEWSLETTER

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#### CREDIT UNION COMMISSION MEETS

The Credit Union Commission met on June 30, 2000 by telephone conference call. Commission members participating on the call were Pat Yokley, Bill Humpfer, Sharon Ichord, Cathy Stroud, Lori Levine, and Pat Macdonald. Other participants were Christie Kincannon, Attorney General's Office, Kari Greathouse, Missouri Credit Union System, John Hopkins, Spirit of St. Louis Credit Union, Rick Nichols, Missouri National Guard Credit Union, Dennis Sommer, Alliance Credit Union, Don Berra, Debbie Webb, Glenn Barks, Steven Morgenthaler, Jim Weiskopf, Gina House, Sharon Hudson, First Community Credit Union, Maribeth Neidert and John P. Smith, Division of Credit Unions.

The Commission approved the minutes of the May 11, 2000 meeting.

The Commission reviewed field of membership expansion applications submitted by Spirit of St. Louis Credit Union, Missouri National Guard Credit Union, Alliance Credit Union, First Community Credit Union and St. Louis Postal Credit Union. More than 3,000 potential members reside within each of the requested areas. The Commission exempted each of the five areas from limitations on groups.

The Commission's next regular meeting will be on August 3, 2000 in Jefferson City.

#### FIELD OF MEMBERSHIP APPLICATION UPDATE

Century Credit Union submitted an application to include persons working or residing in Zip Code 63052. The decision to approve the application was published in the June 15, 2000 Missouri Register. The fifteen day period for appeal of the Director's decision to the Commission has passed, so the decision is final.

Purina Credit Union submitted an application to include employees of Connexus, Inc. and Security Armored Car Services, Inc. The decision to approve the application was published in the July 3, 2000 Missouri Register. A fifteen day period for appeal of the Director's decision to the Commission must occur before the decision is final.

West Community Credit Union submitted an application to include persons working or residing in Overland (63114), Olivette (63132), Crestwood (63126), Sunset Hills (63127), Des Peres (63131), Creve Coeur (63141), Ballwin (63011), Maryland Heights (63146 and 63043), Chesterfield (63017, 63005) and Manchester (63021). The application was published in the June 15, 2000 Missouri Register. The decision to approve the application will be published in the August 1, 2000 Missouri Register. A fifteen day period for appeal of the Director's decision to the Commission must occur before the decision is final.

Central Electric Credit Union submitted an application to include employees of Central Electric Credit Union, family members and family members of eligible members. The application was published in the July 3, 2000 Missouri Register. A ten business day period for comments must elapse before the Director can act on the application.

Southpointe Credit Union submitted an application to include family members of current members, family members of eligible members, those who live or work in Jefferson and Franklin Counties and the Zip Code 63025. Midwest United Credit Union submitted an application to include individuals who work or reside in Jackson County. Both applications will be published in the July 17, 2000 Missouri Register. A ten business day period for comments must elapse before the Director can act on the two applications.

#### FROM THE DIRECTOR

The quality of the applications for field of membership expansion has greatly improved. Credit unions are to be commended for the attention to detail given to the submissions.

On August 12 and 19, the National Credit Union Administration is presenting workshops for small credit unions in St. Louis and Kansas City. Information will be mailed by NCUA directly to credit unions. Representatives from the Division of Credit Unions will be present. Plan to attend.

John P. Smith, Director

## INTERNET FINANCIAL SERVICES

*Recently the Michigan Office of Financial and Insurance Services (MFIB) issued Letter to Credit Unions 2000-CU-01. The Letter is reprinted with permission from the MFIB and changes to fit Missouri credit unions.*

Credit union officials are confronted with important considerations when entering into, using, or providing internet financial services for their members. The internet is inherently insecure and should be treated as such. Use of internet financial services presents greater risk than an in-house or serviced processing environment due to the open access allowed. If vendor services are used, controls may also be more difficult to monitor.

Credit union officials must consider the following issues regarding internet financial services.

### **Planning and Due Diligence**

Credit union officials must thoroughly consider all aspects of internet financial services that will affect the credit union. You must identify and understand all risks, establish appropriate controls, determine costs and the effects on your strategic plan, and develop a program for continual monitoring of activity and performance. If you add links to other services (through portal type connections), you must fully understand the network arrangement, controls, and security. You must document your due diligence for all third party involvement.

### **Risks and Controls**

Risk identification and control is extremely important. Risk can arise from internal as well as external sources. Credit union officials must assess the degree of risk exposure and adopt appropriate controls to mitigate potential threats to the credit union and its members. Initial risk identification is often imperfect, and risks will change over time. Accordingly, you must continually review risks and change controls to protect the credit union and its membership. You should periodically review employee activity with internet financial services. Internal and external audit functions must include a review of internet financial services and controls.

### **Vendor Reliance**

Credit union officials are ultimately responsible for the business affairs, funds, and records of the credit union. However, officials of many credit unions are not fulfilling their fiduciary responsibilities by placing too much reliance on vendors for security, data integrity, performance, monitoring, and controls. You must obtain an explanation of the network performance, and test backup of vendor-dependent functions. You should

ensure intrusion detection methods are employed. Intrusion should trigger immediate notification and disability of the system to limit damage to records or the operating system. The vendor should also have an annual audit with a copy given to the credit union.

### **Contracts**

If you use the services of a vendor, you should enter into a written contract, lease, or licensing agreement with the vendor that is approved by the board of directors. The contract should be reviewed by legal counsel to ensure the interests of the credit union are protected before any services are performed or provided.

### **Insurance**

You must ensure the credit union's insurance will cover potential liabilities relating to your internet financial services involvement. Your insurance should cover "electronic crime," and, if applicable, vendor liability and employee bonding.

### **Disclosure**

You must inform members of the risks associated with internet financial services. Disclosures must be accurate and comply with all regulatory requirements. Informational web pages must also contain complete and accurate disclosures.

### **Privacy**

Compromise of financial transactions or member information could result in legal action and adversely effect the credit union's reputation. Protection of this information is paramount to continued trusted service. You should frequently review privacy laws and your controls to ensure compliance.

### **Password Administration**

Password administration has been an area of concern even for computer services not provided through the internet. Preferably, passwords should be at least a combination of eight alpha characters, numerals, case-sensitive letters, or special characters. Passwords should not be easy to guess, only known to the owner, and changed at least every quarter. If initial assignment of a password is used, it must not be the member's audio pin number, and should require a forced password change by the member before the accounts can be further accessed.

### **Conclusion**

Without proper planning and administration, involvement in the internet financial services arena can pose much risk to a financial institution. Accordingly, you must consider the above issues before entering into, and while actively engaging in, internet financial services. The following are websites that provide useful information on internet financial services:

[www.cis.state.mi.us/ofis/](http://www.cis.state.mi.us/ofis/)

[www.fdic.gov/regulations/index.html](http://www.fdic.gov/regulations/index.html)

